



Foreign Agricultural Service

**GAIN Report**

Global Agriculture Information Network

Prepared by: Philip A. Shull

Date: 23-Mar-1999

GAIN Report #KS9023

Cleared by: Philip A. Shull

U.S. Embassy, ATO, Seoul, Korea

## **Market Brief**

### **Korea, Republic of :**

### **Korea's Food Retail Market : Impressive Achievements; Outstanding Prospects**

**This report was prepared by the USDA's Foreign Agricultural Service for U.S. exporters of food and agricultural products. This information is in the public domain and may be reprinted without permission. Use of commercial or trade names does not imply approval nor constitute endorsement by USDA/FAS.**

Seoul ATO [KS2], KS

## Korea's Food Retail Market: Impressive Achievements; Outstanding Prospects

**Summary:** Now is the time for exporters of U.S. consumer ready products to turn- or return- their attention to Korea. This nation of 45 million people in an area the size of Indiana is the 4<sup>th</sup> largest market for U.S. agriculture. From 1960-1997 Korea experienced the longest and largest economic growth in the history of the world, averaging 9% per year. In 1960 it had the per capita income of Chad; today, despite the crisis, it still ranks among the top economies in the world. Exporters should not be dissuaded by the 1998 financial crisis. For the reasons described below, recovery of food and beverage imports is expected to be rapid. There are abundant opportunities in Korea for most consumer ready food and beverage products. The Agricultural Trade Office in Seoul offers a variety of services for exporters to get them started and keep them going.

### The Financial Crisis and Recovery

In 1998 Korea experienced its worst economic crisis since the Korean War. Exports of consumer ready food and beverage products, including seafood, dropped nearly 50 percent to roughly \$600 million. A wildly fluctuating exchange rate, plummeting property values, and a temporary paralysis of the financial system are among the key reasons why imports dropped so sharply.

While full economic recovery and implementation of key reforms will be a multi-year process, we expect recovery of Korean agricultural imports to be much more rapid. We predict a number of products (e.g. fresh and frozen vegetables, processed and frozen fruit, refrigerated doughs, coffee, wine, poultry, certain dairy products, a wide range of microwaveable foods, etc.) will start setting year on year records within the next year or two. (See Table I for a list of products with high potential growth.) There have been strong indications since late 1998 that imports are picking up.

### Why is the Outlook for U.S. Consumer Ready Exports to Korea so Bright?

**The near exhaustion of stocks of imported consumer ready products during 1998 will result in strong demand for many of these items in 1999.** The financial crisis made importing extremely risky for everyone, and credit impossible for many. Hotels, supermarkets and restaurants relied on their warehouses and cleaned out their freezers in order to postpone importing as long as possible. Korea's 70 - 75% dependence on imported foods (including bulk commodities) and consumer demand for high quality diets makes significant increases in food imports a priority and inevitable. This is why, despite the drop in imports resulting from the financial crisis, Korea remained the 4th largest U.S. market for agricultural products in 1998. The excellent quality, competitiveness, and reputation of American foods helps make them products of preference.

**The overall economic situation and business environment favors increased food and beverage imports.** While exporters face a number of formal and informal barriers to the Korean market, access is improving. In a monumental change from just several years ago, virtually all frozen and processed foods are importable, as well as a number of fresh fruits and vegetables.

The gradual opening of the Korean market to grocery products beginning in the late 1980's is the main reason Korea has become a top importer (see graph). The results of the next trade round and continuing progress in overcoming such problems as bans or restrictions on commonly used food additives will open the market even further.

The more immediate outlook for U.S. grocery exports is also excellent, despite the crisis. The stabilization of the exchange rate in the fall of 1998, better credit terms, and a recovery in consumer confidence has allowed importers to start replenishing low stocks. The Korean won hovering around the 1200 level from September through March not only brought needed stability, but the currency's strong appreciation in mid-1998 means U.S. products are about 35% cheaper to import than they were a year ago. While too early to show up in the statistics at the time of this writing (see graph), it is clear from information we are receiving on a weekly and sometimes daily basis that Korean buyers are back.. Following are just four examples.

- An ATO-led buying mission comprised of eight Korean companies which went to the U.S. in November 1998 estimated they would import *\$10 million* in grocery items over the following 12 months from the companies they met with. As of March 1999, they had already purchased over 125 containers, or roughly \$3 million of fresh, processed, and frozen foods.
- A menu promotion ATO sponsored at a five-star hotel in November and December attracted 600 customers per day, 30% above normal. The bottles of American wine which retailed for over \$30 a piece sold 40-50/day, over twice the estimated amount. Hotel managers report food and beverage sales have almost fully recovered to pre-crisis levels.
- A coffee roaster for whom ATO made appointments with importers and end users in the fall of 1998 had made sales of his products approaching \$500,000 by early spring.
- Another exporter the ATO has assisted over the years wrote in early January that, "Business with Korea is better than ever... we received a record four calls from four different Korean companies in one evening."

**The evolving structure of the food retail sector should benefit U.S. exporters.** The Korean food retail sector is evolving rapidly away from traditional "mom 'n pop" stores and wet markets (which comprised about 75% of grocery sales in 1998) toward one of large discount, convenience, and gourmet outlets. It is in this latter group that U.S. products enjoy the greatest demand. For example, Korea's 60 hypermarkets already comprise about 12% of total retail food sales. Industry sources estimate the number of hypermarkets will grow to 200 in 2003-2004. Combined with the rapid decline in mom 'n pop stores which one Korean expert puts at nearly 30% per year, the opportunities are exceptional for U.S. exporters of grocery products across the board.

**The grocery items in growing demand by modern Korean society are those in which the U.S. is most competitive.** The rapid growth of two-income households, the spread of "hypermarkets", and an internationalization of tastes has led to exploding demand for a wide variety of high quality convenience foods. Young people in Korea today are more likely to go to

a pizza place than a kimchee stew house. Their parents are increasingly likely to have toast and coffee than the traditional breakfast of rice with barley tea. Furthermore, the sophistication of Korean consumers and their high level of confidence in the safety and wholesomeness of U.S. food products gives an added boost to their competitiveness. Most importantly, these are trends which will continue for the foreseeable future, thus providing excellent growth prospects for the long term.

**Korea's food and beverage industry has changed significantly over the past year.** The financial crisis forced many importers, distributors, and some of the inefficient “mom ‘n pop” stores out of business. The dissolution of supplier agreements, sole-agent contracts, etc., means there is no better time for you come to Korea. Many experienced importers are looking to build relationships with reliable suppliers, and to build a market for new products and new brands in an ever more efficient industry. Your visit to our office, or best of all, participation in our annual Great American Food Show (GAFS) held in Seoul each March is an excellent way to become acquainted with the new food and beverage industry in Korea and the tremendous opportunities it presents.

## Challenges

Every market has its challenges, and Korea is no exception. In fact, “exceptionally challenging” is the term more commonly used to describe doing business here in “The Hermit Kingdom”. Exporters cite high tariffs, a plethora of customs clearance difficulties, contract disputes with importers, a non-transparent legal system, corruption, and extremely tough bargaining as why Korea is such a tough market. Difficult, yes. But there is typically \$3-4 billion in yearly agricultural trade that proves it is possible.

## How to Start and Succeed

Following is ATO Seoul’s advice on developing your market in Korea:

- **Two cardinal principles to remember when dealing with Korea:**
  - If the relationship with your importer is not good, the contract won’t save you.
  - Korea is not a market you can manage by remote control from far away.
- **Have a good product at a fair price** - Offer excellent value. Korean consumers are discerning and demanding, but they will pay for quality. Never sacrifice quality for price.
- **Market Research**- Is there a market for your product? Ask the ATO and, if at all possible, come to Korea to see the market for yourself. You should also check the ATO Seoul Home Page to see if there is a Market Brief on your products.
- **Be prepared to invest time, money, and patience** - You will probably need to travel personally several times to Korea to find the right importer, learn about the market, and develop a relationship with your customers. Then you should return at least once annually to maintain those relationships.

- **Locate a good importer/distributor; avoid agents who sub-contract these services -** Companies without offices in Korea have found it most effective to contract with a sole importer/distributor on a year-to-year basis. This provides adequate time and incentive for your agent to build and maintain a market for your products.
- **Ask the importer details about his experience importing similar products -** Ask how he will ensure your product is importable, how he resolves customs clearance problems, etc., and to introduce you to his customers and distribution facilities. Avoid the smooth-talking, well educated “agent” who promises to take care of everything for you. While this is comfortable for you, retailers and wholesalers are reluctant to buy from agents because they believe they are paying an additional 25-30% for no service.
- **Utilize the ATO -** While there are limits as to how much the ATO staff can assist any one company, they are happy to meet with any U.S. exporter who visits Seoul, and to offer their expert perspective on the market for your products. They can also help arrange appointments for your first visit, put you in contact with qualified importers, and include your products in ATO promotions.
- **Start small -** Unless you are an experienced exporter to Korea or have very deep pockets, ATO Seoul recommends starting with small sales, and slowly build. Unless you are paid in advance, be suspicious if your new importer buys one container, and suddenly wants 25 more by next month.
- **Never ship more than you can afford to lose -** Some exporters have lost an entire shipment based on a false finding by Korean food safety inspectors, usually after previous shipments of the same product have sailed through. Once officials have found a “problem” with a shipment, they almost never reverse themselves, even if they know they made a mistake.
- **Let your importer decide if there are too many barriers for your products -** With the exception of the hard bargaining over price, all the “challenges” to this market are your importer’s problem. He/she is the expert in the market, and if they think they can sell your product despite the 45% tariff and customs clearance delays, let them try. In this land where relationships mean more than law, the “impossible” happens every day. Your job is to protect your price and payment in the contract.
- **Don’t sell at a loss to make an initial sale -** Some importers promise to buy more later at a higher price in return for a “special price” today. Once you agree to sell, you’ve just established an acceptable price which you may find difficult to raise.
- **Utilize the Oregon State Laboratory to certify your processed exports -** The Oregon State Lab is the only facility which has been certified by the Korean government to make the required food safety tests on processed food products. If there is a prohibited additive in your product, you may find out before it is exported. While there are no guarantees your product will not be stopped for a random check by Korean Health and Welfare officials, the overall record has been excellent. You may contact the Oregon

Lab at:

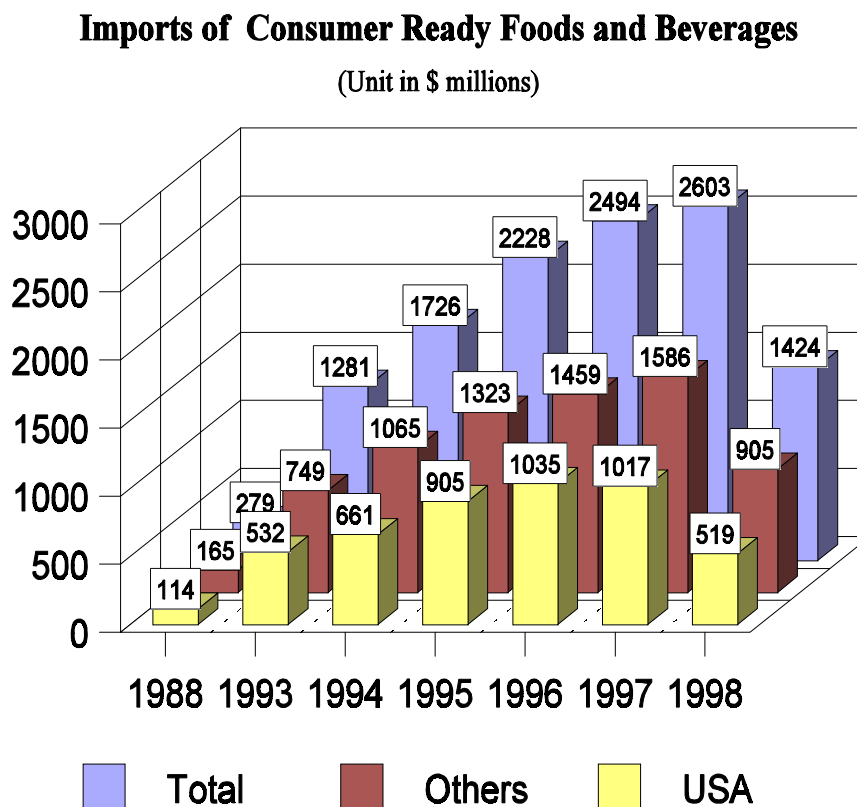
Oregon Department of Agriculture  
Export Service Center  
Albers Mill Building  
1200 N.W. Front Avenue, Suite 320  
Portland, OR 97209-2898  
Tel: 503-229-6557  
Fax: 503-229-5933  
E-mail: [esc-food@oda.state.or.us](mailto:esc-food@oda.state.or.us)

- **Pre-clearance testing and classification-** Ensure that you or your importer have your products pre-cleared by Korean Customs or the Oregon Lab to ensure they are importable. Your importer should also get a classification from Korean Customs to ensure it is not “re-classified” into a higher tariff category upon arrival, an all-too-common practice.
- **Make use of *Trade Leads* and *Buyer Alert*** - While exports of U.S consumer ready foods dropped nearly 50% in 1998, sales made to Korea under these two programs increased to approximately \$30 million. To subscribe, please contact FAS/Agexport Services at:  
Ag Export Connections  
Ag Box 1052  
USDA/FAS/AGX  
Washington, D.C. 20250-1052  
Tel: 202-690-3416 / 202-690-3421  
Fax: 202-690-4374
- **Exhibit at the Great American Food Show in Seoul-** This U.S.-only, trade-only show is held in mid-March each year, the week following FOODEX in Tokyo. Because it is closed to the general public, it is the most efficient and effective way to exhibit your products to the 2-3000 key players in Korea’s food and beverage industry. For more information on GAFS 2000, please contact the Seoul ATO at: [atoseoul@fas.usda.gov](mailto:atoseoul@fas.usda.gov) or fax: 011-822-720-7921.

### Other Information

For more information on the Korean market, please contact the Seoul ATO, and take a look at the ATO Seoul Home Page: <http://www.atoseoul.com>

Graph



Source: Korea Trade Information Services (KOTIS)

Imports of consumer ready foods and beverages, 1988 and 1993-1998. In the 10 years between 1988 and 1997, Korean imports of grocery products increased nearly 1,000 %, aided by rising incomes and trade liberalization. While the Korean financial crisis resulted in grocery imports falling to 1993/1994 levels, ATO Seoul predicts a rapid recovery in imports of these products.

Table I

### High Growth Consumer Ready Products

	1997 Total Value (\$ million)	1997 U.S. Value (\$ million)	1998 Total Value (\$ million)	1998 U.S. Value (\$ million)
Red Meat	738	353	428	211
Poultry Meat	68	31	27	15
Seafood	860	122	499	77
Dairy	145	36	86	19
Citrus	41	41	33	33
Veg. frozen	10	3	7	2
Tree nuts	26	22	16	15
Fresh Veg.	26	7	2	1
Coffee	9	7	3	2
Confectionary	125	34	69	18
Prep of cereals	80	18	49	9
Processed Fruit & Veg.	328	137	186	88
Other prepared food	235	84	147	48
Wine	23	2	7	1
Pet food	14	12	9	7

Products identified by ATO Seoul as having excellent growth potential over the next five years.

ATO Seoul has identified the above products as those having excellent growth potential over the next 5 years.

Table II Market Briefs Available from ATO Seoul

The ATO prepares market briefs on food & beverage topics to assist U.S. exporters in identifying potential market opportunities and in effectively competing in the Korean market. Most of these market briefs are available through the FAS Home Page ([www.fas.usda.gov](http://www.fas.usda.gov)) where you can specify “Korea, Republic of” to view these and other commodity and marketing reports. You can also obtain market briefs by contacting the ATO Seoul. Please take a look at the ATOSeoul Homepage ([www.atoseoul.com](http://www.atoseoul.com)).

Subject of Market Briefs	Date
* Korea's Food Retail Market: Impressive Achievements; Outstanding Prospects	March 1999
* Frozen Fruit	March 1999
Korean Economic Update on Consumer Ready Product Sector	January 1999
Frozen Vegetable	July 1998
* Food Ingredients	July 1998
Coffee	July 1998
Beer	July 1998
* Distribution of Food and Agricultural Products	July 1998
* Garlic & Redpepper	September 1997
Wine	June 1997
Monkfish	June 1997
Korea's Retail Food Sector: Big Changes and Bigger Opportunities	June 1997
Onion	May 1997
Beef Jerkey	April 1997
Kiwifruit	February 1997
Cheese	January 1997
Fruit & Vegetable Juice	November 1996
Fresh Potatoes	October 1996
Onion	July 1996
* Dairy	June 1996
* Grapes	June 1996

\* These market briefs are not currently available on the ATO or FAS Home Pages. Please contact the ATO directly for copies.